

LISTING APPLICATION TO
NEW YORK STOCK EXCHANGE, INC.
CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE

B-4381
July 24, 1974

S. S. KRESGE COMPANY

\$200,000,000 PRINCIPAL AMOUNT OF 6% CONVERTIBLE SUBORDINATED DEBENTURES DUE 1999

UNDERWRITTEN PUBLIC OFFERING CUSIP 500800 AC 1

5,633,803 ADDITIONAL SHARES OF COMMON STOCK Issuable Upon Conversion Of The Debentures

Number of Shares of Common Stock issued as at June 21, 1974: 119,863,572	Number of Shareholders of Record as at June 21, 1974: 82,499
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DESCRIPTION OF TRANSACTION

The \$200,000,000 principal amount of Convertible Subordinated Debentures Due 1999, application for the listing of which is hereby made, are to be issued pursuant to the provisions of an Indenture to be dated as of July 15, 1974 between S. S. Kresge Company (the "Company") and Bankers Trust Company, Trustee. The Debentures will be issued in fully registered form in denominations of \$1,000, and any multiple of \$1,000.

The Debentures are to bear a fixed rate of interest, payable semi-annually on January 15 and July 15 and are to be convertible, prior to maturity, into shares of Common Stock of the Company at a rate set forth in the Prospectus of the Company which is incorporated herein and made a part hereof. The Debentures may be presented for payment of principal, exchanges, transfers and conversions at the office of Bankers Trust Company in New York, New York. Debentures may be exchanged for a like aggregate principal amount of Debentures in denominations of \$1,000 or any multiple of \$1,000. No service charge will be made for any exchange or transfer, but payment will be required to cover any tax or other governmental charge that may be imposed in such a transaction.

Beginning July 15, 1985 the Company is required to retire \$11,000,000 principal amount of the Debentures annually, and beginning July 15, 1985, the Company has a non-cumulative option of retiring an additional \$11,000,000 principal amount annually.

The Debentures are subordinated as to principal, premium, if any, and interest to Senior Indebtedness as defined in the Indenture, whether outstanding on the date of the Indenture or thereafter created.

The additional shares of Common Stock of the Company, application for the listing of which is hereby made, are to be reserved for issuance upon conversion of the Debentures.

RECENT DEVELOPMENTS

There have not been any recent developments materially affecting the Company or its business notice of which has not already been released to the public.

AUTHORITY FOR ISSUANCE

On July 1, 1974, the Board of Directors of the Company authorized the issuance and sale of the Debentures and the reservation of the Common Stock for issuance upon conversion thereof.

OPINION OF COUNSEL

The opinion of Messrs. Dickinson, Wright, McKean & Cudlip, 800 First National, Building, Detroit, Michigan 48226, has been submitted to the New York Stock Exchange, Inc. to the effect that (1) the Debentures have been duly authorized for issuance and sale; (2) the Debentures when issued, authenticated, delivered and paid for, will constitute the valid and binding obligation of the Company, enforceable according to their terms and the terms of the Indenture; (3) the Debentures have been registered on Form S-7 under the Securities Act of 1933 and application for registration of the Debentures on the New York Stock Exchange, Inc. has been filed on Form 8-A with the Securities and Exchange Commission and the New York Stock Exchange, Inc. pursuant to the Securities Exchange Act of 1934; (4) the Indenture has been qualified under the Trust Indenture Act of 1939; (5) the additional shares of Common Stock referred to in this Listing Application have been duly authorized for issuance; (6) such shares, when issued upon conversion of the Debentures, will be validly issued, fully paid and non-assessable; (7) except that under certain circumstances the stockholders of a Michigan corporation may be liable for labor claims against a corporation as provided by the laws of the State of Michigan, which is the State of domicile and where the principal place of business of the Company is located, no personal liability will attach to the holders of shares of Common Stock; (8) the shares of Common Stock included in this Listing Application, when issued upon conversion of the Debentures, will have been registered on Form S-7 under the Securities Act of 1933; and (9) with respect to the Securities Exchange Act of 1934, no further application for registration under said Act is necessary as to the additional shares of Common Stock since all of such shares are of a class which heretofore has been registered.

S. S. KRESGE COMPANY

By ROGER E. DAVIS
Vice President and Secretary

The New York Stock Exchange, Inc. hereby authorizes the listing of \$200,000,000 principal amount of 6% Convertible Subordinated Debentures due 1999 of S. S. Kresge Company upon official notice of issuance, sale and evidence of satisfactory distribution pursuant to an underwritten public offering.

The Exchange also authorizes the listing upon official notice of issuance of 5,633,803 additional shares of Common Stock, \$1 Par Value, of S. S. Kresge Company upon conversion of the 6% Convertible Subordinated Debentures due 1999, as hereinabove set forth, making a total of 128,727,579 shares of Common Stock authorized to be listed.

MERLE S. WICK, *Vice President*
Division of Stock List

JAMES J. NEEDHAM, *Chairman of the Board*
New York Stock Exchange, Inc.

PROSPECTUS

\$200,000,000
S. S. Kresge Company
6% CONVERTIBLE SUBORDINATED DEBENTURES DUE 1999

Interest payable July 15 and January 15

Convertible into Common Stock of S. S. Kresge Company on or before July 15, 1999, unless previously redeemed, at a conversion price of \$35½ a share, subject to adjustment in certain events. The reported closing sales price of the Common Stock on the New York Stock Exchange on July 23, 1974 was \$31¾ a share.

Redeemable at the option of the Company, in whole or in part, at any time upon at least 30 days' notice at 106% of the principal amount prior to July 15, 1975, at decreasing prices thereafter prior to July 15, 1994 and thereafter at 100%, together in each case with accrued interest.

Annual sinking fund payments of \$11,000,000 are to be applied to redemption of Debentures at the principal amount with accrued interest on each July 15 from 1985 to 1998, inclusive, the Company reserving the right to deliver Debentures in lieu of cash and to credit Debentures converted into Common Stock at the principal amount thereof. The sinking fund is calculated to retire at least 77% of the issue prior to maturity. The Company also has the noncumulative option to increase any sinking fund payment by an amount not exceeding such sinking fund payment.

Application has been made to list the Debentures on the New York Stock Exchange.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

PRICE 100% AND ACCRUED INTEREST

	<u>Price to Public(1)</u>	<u>Underwriting Commissions</u>	<u>Proceeds to Company(1)(2)</u>
Per Unit.....	100%	1.125%	98.875%
Total.....	\$200,000,000	\$2,250,000	\$197,750,000

(1) Plus accrued interest from July 15, 1974.

(2) Before deduction of estimated expenses of \$269,000.

The Debentures are offered, subject to prior sale, when, as and if issued by the Company and accepted by the Underwriters named herein and subject to approval of certain legal matters by Davis Polk & Wardwell, counsel for the Underwriters. It is expected that delivery of the Debentures will be made on or about August 1, 1974 at the office of Morgan Stanley & Co. Incorporated, 140 Broadway, New York, N. Y., against payment therefor in New York funds.

MORGAN STANLEY & CO.
Incorporated

July 24, 1974

No person is authorized in connection with this offering to give any information or to make any representation not contained in this Prospectus; any information or representation not contained herein must not be relied upon as having been authorized by the Company or any Underwriter.

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S. S. Kresge Company is subject to the information requirements of the Securities Exchange Act of 1934 and in accordance therewith files reports and other information with the Securities and Exchange Commission. Information concerning its directors and officers, their remuneration and options granted to them, the principal holders of its securities and any material interest of such persons in transactions with it, as of particular dates, is set forth in proxy statements distributed to shareholders of the Company and filed with the Commission. Such reports, proxy statements and other information can be inspected at the office of the Commission at Room 6101, 1100 L Street, N.W., Washington, D.C. and copies of such material can be obtained from the Commission at prescribed rates. In addition, information concerning the Company can be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York, the Detroit Stock Exchange, 2314 City National Bank Building, Detroit, Michigan, and the Pacific Stock Exchange, 301 Pine Street, San Francisco, California.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE DEBENTURES OFFERED HEREBY OR THE COMMON STOCK OF THE COMPANY OR BOTH AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK, DETROIT, OR PACIFIC STOCK EXCHANGES OR IN THE OVER-THE-COUNTER MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE COMPANY

S. S. Kresge Company and its consolidated subsidiaries (the "Company") are principally engaged in the retail sale of a wide range of general merchandise through the operation of a chain of discount department stores ("K mart" stores), variety stores ("Kresge" stores) and limited-line small discount stores ("Jupiter" stores). Operations are conducted throughout the United States, Canada, Puerto Rico and Australia.

Since the commencement of the "K mart" program in 1962, the Company has experienced substantial growth. During the period 1962-1973 the Company opened 673 "K mart" stores, more than quadrupled its retail selling space, and increased sales from approximately \$480,000,000 to approximately \$4,600,000,000. In addition, since 1961 the Company has undertaken a critical reevaluation of its existing stores resulting in the closing or modernization of certain "Kresge" stores and the conversion of other "Kresge" stores to "Jupiter" stores.

The business in which the Company is engaged is highly competitive. Based upon sales volume and number of stores, the Company is a major retailer of general merchandise.

The Company was incorporated under the laws of the State of Michigan on March 9, 1916 as the successor to a business developed by its founder, S. S. Kresge, who opened his first store in Detroit in 1899. The principal executive offices of the Company are located at 3100 West Big Beaver Road, Troy, Michigan 48084, and its telephone number is (313) 643-1000.

USE OF PROCEEDS

The net proceeds to be received by the Company from the sale of the 6% Convertible Subordinated Debentures Due 1999 (the "Debentures") offered hereby will be used to reduce short-term indebtedness which, other than the current portion of long-term debt, aggregated approximately \$272,660,000 at June 26, 1974 and is expected to aggregate approximately \$300,000,000 at August 1, 1974. Such short-term indebtedness was incurred to finance increased inventories and accounts receivable, as well as developmental and preopening expenses and expenditures for improvements and fixtures resulting from store expansion and modernization programs. The Company will continue to require funds to finance its expansion program.

The Company intends to provide a major portion of any additional funds required for the above purposes or other purposes from its cash resources. Funds may also be provided from the proceeds of additional short-term or long-term borrowings or other financing arrangements.

DIVIDENDS AND PRICE RANGE OF COMMON STOCK

The Company has paid cash dividends on its Common Stock in each year since its incorporation. Dividends declared per share during the years 1969-1973 are shown under "Consolidated Statement of Income". Quarterly dividends of 5¢ and 5½¢ per share were paid on March 13, 1974 and June 12, 1974, respectively, and a dividend of 5½¢ per share was declared on July 16, 1974. Future dividends will depend upon the Company's earnings, capital requirements, financial condition and other factors. Reference is made to "Description of Capital Stock" for information concerning certain restrictions upon the payment of dividends.

The following table indicates the high and low sales prices of the Common Stock of the Company on the New York Stock Exchange as reported by The Commercial and Financial Chronicle for the periods indicated, adjusted for the three-for-one stock split effective June 29, 1972:

<u>Year</u>	<u>High</u>	<u>Low</u>	<u>Year</u>	<u>High</u>	<u>Low</u>
1969.....	20¾	12⅝	1973:		
1970.....	19⅞	11½	First Quarter.....	51⅞	37¾
1971.....	33⅞	18¾	Second Quarter.....	40¾	31
1972.....	49⅞	31½	Third Quarter.....	43	31½
1973.....	51⅞	28¾	Fourth Quarter.....	42¾	28¾
1974 (through			1974:		
July 23).....	38⅞	27¾	First Quarter.....	37¾	27¾
			Second Quarter.....	38⅞	29½
			Third Quarter		
			(through July 23).....	34⅝	30¾

On July 23, 1974, the closing sales price of the Common Stock on the New York Stock Exchange was 31¾.

CAPITALIZATION

The following table sets forth the capitalization of the Company as of May 1, 1974 and as adjusted to give effect to the issuance of the Debentures offered hereby and the reduction of Short-Term Indebtedness referred to under "Use of Proceeds":

	<u>Outstanding</u>	<u>As Adjusted</u>
Short-Term Indebtedness:		
U.S. (1).....	\$232,849,000	\$ 35,368,000
Foreign.....	13,506,000	13,506,000
Current Portion of Long-Term Debt.....	2,165,000	2,165,000
Total Short-Term Indebtedness.....	<u>\$248,520,000</u>	<u>\$ 51,039,000</u>
Long-Term Debt:		
3½% to 6% Mortgage Notes.....	\$ 781,000	\$ 781,000
9½% to 12½% Foreign loans (2).....	8,750,000	8,750,000
4⅞% Notes due December 16, 1983.....	11,500,000	11,500,000
6% Convertible Subordinated Debentures Due 1999.....	—	200,000,000
Total Long-Term Debt.....	<u>21,031,000</u>	<u>221,031,000</u>
Stockholders' Equity:		
Preferred Stock, no par value, issuable in series; authorized 10,000,000 shares; issued none.....	—	—
Common Stock, \$1 par value; authorized 250,000,000 shares; issued 119,854,326 shares (3).....	119,854,000	119,854,000
Capital in excess of par value.....	174,616,000	174,616,000
Income retained for use in the business.....	654,653,000	654,653,000
Total Stockholders' Equity.....	<u>949,123,000</u>	<u>949,123,000</u>
Total Long-Term Debt and Stockholders' Equity.....	<u>\$970,154,000</u>	<u>\$1,170,154,000</u>

(1) This amount represents primarily notes payable to banks at interest rates approximating the prime lending rates (8¾%—10%). See Note 3 of Notes to Consolidated Financial Statements for information on compensating balances.

(2) Interest rates are adjusted monthly.

(3) Excludes 1,480,929 shares reserved for issuance upon exercise of options granted or which may be granted under the Company's Stock Option Plans, 1,665,384 shares reserved for issuance pursuant to the Company's 1971 Stock Purchase Incentive Plan, 5,633,803 shares reserved for issuance on conversion of the Debentures offered hereby, and 93,137 shares reserved for issuance upon exercise of options assumed in acquisition of Planned Marketing Associates, Inc. See Note 7 of Notes to Consolidated Financial Statements.

Of the 1,244 stores in operation at January 30, 1974, 1,120 were leased and 124 were partially or wholly-owned. See "Business—K mart Stores" and Note 9 of Notes to Consolidated Financial Statements for information on leases and related rentals.

CONSOLIDATED STATEMENT OF INCOME

The following Consolidated Statement of Income of S. S. Kresge Company and subsidiary companies has been examined by Price Waterhouse & Co., independent accountants, whose report thereon appears elsewhere in this Prospectus. As explained in Note A, on January 23, 1974 S. S. Kresge Company acquired Planned Marketing Associates, Inc. (PMA) in a transaction accounted for as a "pooling of interests". Accordingly, the amounts shown for the fiscal years ended in 1970, 1971, 1972, 1973 and 1974 include, on the equity method of accounting, the operating results of PMA for its years ended December 31, 1969, 1970, 1971, 1972 and 1973, respectively. The statement should be read in conjunction with the other consolidated financial statements and notes thereto included elsewhere in this Prospectus.

	Fiscal Year Ended (Note A)				
	January 31, 1970	January 27, 1971	January 26, 1972	January 31, 1973	January 30, 1974
Sales.....	\$2,185,298,000	\$2,558,712,000	\$3,100,216,000	\$3,836,826,000	\$4,633,223,000
Licensee fees and rental income.....	44,999,000	52,928,000	61,771,000	65,676,000	69,281,000
Interest income.....	1,279,000	1,864,000	1,861,000	1,860,000	2,581,000
	<u>2,231,576,000</u>	<u>2,613,504,000</u>	<u>3,163,848,000</u>	<u>3,904,362,000</u>	<u>4,705,085,000</u>
Cost of merchandise sold (including buying and occupancy costs) (Note 2).....	1,658,953,000	1,936,538,000	2,328,329,000	2,900,302,000	3,503,776,000
Advertising.....	54,145,000	65,240,000	68,225,000	89,968,000	107,425,000
Selling, general and administrative expenses..	395,172,000	466,076,000	569,017,000	693,931,000	822,854,000
Interest expense:					
Long-term debt.....	2,749,000	5,914,000	7,725,000	5,929,000	1,797,000
Short-term borrowings.....	7,017,000	4,631,000	2,915,000	4,415,000	13,355,000
	<u>2,118,036,000</u>	<u>2,478,399,000</u>	<u>2,976,211,000</u>	<u>3,694,545,000</u>	<u>4,449,207,000</u>
Income before estimated income taxes.....	113,540,000	135,105,000	187,637,000	209,817,000	255,878,000
Estimated income taxes (Note B):					
U.S., less investment credit.....	46,598,000	53,037,000	69,938,000	68,721,000	85,794,000
Foreign.....	5,760,000	7,675,000	10,095,000	10,853,000	12,908,000
State and local.....	4,201,000	4,944,000	8,203,000	9,630,000	11,966,000
Tax effect of timing differences.....	2,892,000	2,455,000	3,285,000	5,939,000	9,168,000
	<u>59,451,000</u>	<u>68,111,000</u>	<u>91,521,000</u>	<u>95,143,000</u>	<u>119,836,000</u>
Income before net income of unconsolidated insurance subsidiary.....	54,089,000	66,994,000	96,116,000	114,674,000	136,042,000
Equity in net income of wholly-owned unconsolidated insurance subsidiary.....	317,000	645,000	1,564,000	2,401,000	2,209,000
Net income for the year (Note A).....	<u>\$ 54,406,000</u>	<u>\$ 67,639,000</u>	<u>\$ 97,680,000</u>	<u>\$ 117,075,000</u>	<u>\$ 138,251,000</u>
Per share data (Note C):					
Earnings per common and common equivalent share.....	\$.52	\$.62	\$.85	\$ 1.00	\$ 1.15
Earnings per common share—assuming full dilution.....	\$.51	\$.61	\$.85	\$ 1.00	\$ 1.15
Cash dividends declared.....	\$.13 $\frac{1}{8}$	\$.14 $\frac{3}{8}$	\$.16 $\frac{3}{8}$	\$.17 $\frac{1}{8}$	\$.20
Ratio of earnings to fixed charges (Note G):					
Using one-third of rentals as interest factor	4.97	5.03	5.79	5.69	5.38
Using other appropriate portion of rentals as interest factor.....	5.66	5.51	6.01	5.20	4.66

(Numerical note references are to Notes to Consolidated Financial Statements included elsewhere herein.)

NOTES TO CONSOLIDATED STATEMENT OF INCOME

- A. Effective on January 23, 1974, the Company acquired all of the outstanding common stock of an insurance company, Planned Marketing Associates, Inc. (PMA), in exchange for 1,912,846 shares of the Company's common stock. This transaction has been accounted for as a "pooling of interests"

NOTES TO CONSOLIDATED STATEMENT OF INCOME—Continued

and, accordingly, net income has been restated retroactively as follows to reflect on the equity method of accounting the results of operations of PMA:

	Fiscal Year Ended			
	January 31, 1970	January 27, 1971	January 26, 1972	January 31, 1973
Net income, as previously reported.....	\$ 54,089,000	\$ 66,994,000	\$ 96,116,000	\$114,674,000
Net income of PMA.....	317,000	645,000	1,564,000	2,401,000
Net income, as restated.....	<u>\$ 54,406,000</u>	<u>\$ 67,639,000</u>	<u>\$ 97,680,000</u>	<u>\$117,075,000</u>

Certain amounts in the four fiscal years ended January 31, 1973 have been reclassified to conform to the presentation adopted in the fiscal year ended January 30, 1974.

- B. The Company's effective income tax rate is reconciled to the Federal statutory rate as follows:

	Fiscal year ended in				
	1970	1971	1972	1973	1974
Book income before income taxes.....	<u>\$113,540,000</u>	<u>\$135,105,000</u>	<u>\$187,637,000</u>	<u>\$209,817,000</u>	<u>\$255,878,000</u>
Tax thereon, computed at statutory rate.....	<u>\$ 59,949,000</u>	<u>\$ 66,472,000</u>	<u>\$ 90,066,000</u>	<u>\$100,712,000</u>	<u>\$122,821,000</u>
Increases (reductions) in taxes resulting from:					
State and local income taxes, net of federal income tax benefit.....	1,983,000	2,512,000	4,266,000	5,008,000	6,222,000
Investment tax credit.....	(1,500,000)	(170,000)	(1,675,000)	(3,757,000)	(3,924,000)
Foreign income subject to foreign income tax but not expected to be subject to U.S. tax in foreseeable future.....	374,000	366,000	169,000	(1,600,000)	(1,771,000)
Other.....	(1,355,000)	(1,069,000)	(1,305,000)	(5,220,000)	(3,512,000)
Estimated income taxes.....	<u>\$ 59,451,000</u>	<u>\$ 68,111,000</u>	<u>\$ 91,521,000</u>	<u>\$ 95,143,000</u>	<u>\$119,836,000</u>
Effective rate.....	<u>52.4%</u>	<u>50.4%</u>	<u>48.8%</u>	<u>45.3%</u>	<u>46.8%</u>
The major timing differences are:					
Excess of tax depreciation over book depreciation.....	\$ 720,000	\$ 1,015,000	\$ 1,966,000	\$ 2,400,000	\$ 4,285,000
Other.....	2,172,000	1,440,000	1,319,000	3,539,000	4,883,000
	<u>\$ 2,892,000</u>	<u>\$ 2,455,000</u>	<u>\$ 3,285,000</u>	<u>\$ 5,939,000</u>	<u>\$ 9,168,000</u>

Statutory rates used are as follows: 52.8% in 1970, 49.2% in 1971 and 48% from 1972 to 1974. Investment credits are accounted for on the "flow through method". The investment credit was repealed in April 1969. A new investment credit was enacted effective in the Company's fiscal year 1971.

- C. "Earnings per common and common equivalent share" for the three years ended January 30, 1974 were computed by dividing net income by the weighted average number of shares of common stock and common stock equivalents outstanding during each year. In the other years either there were no common stock equivalents or they were less than 3% dilutive; accordingly, the amounts shown for the two years ended January 27, 1971 were computed using the weighted average number of common shares outstanding during each period.

In making the computation of earnings per common and common equivalent share for the two years ended January 31, 1973, common shares at the beginning of each year were increased by the number of shares issuable on conversion of the 5% convertible subordinated debentures and net income was adjusted for interest expense and amortization of debenture expense net of related tax effect. In addition, for the three years ended January 30, 1974, the number of common shares was increased by the number of shares issuable under the stock option and stock purchase incentive plans, less the number of shares which were assumed to have been purchased at average market prices with the proceeds of sales under the plans.

"Earnings per common share—assuming full dilution" were determined on the assumption that convertible debentures were converted into common stock at dates of issue in 1967 and 1970 and

NOTES TO CONSOLIDATED STATEMENT OF INCOME—Continued

net income was adjusted for interest expense and amortization of debenture expense net of related tax effect. The number of common shares was also increased by the number of shares issuable under the stock option and stock purchase incentive plans, less the number of shares which were assumed to have been purchased at end of period market prices with the proceeds of sales under the plans.

	Fiscal year ended in				
	1970	1971	1972	1973	1974
Number of shares used in computing earnings per common and common equivalent share.....	104,140,796	109,058,091	118,365,359	119,304,071	119,787,217
Number of shares used in computing earnings per common share—assuming full dilution.....	108,718,673	115,005,693	118,390,868	119,331,601	119,790,831

Earnings per common and common equivalent share would have been \$.51 for the year ended January 31, 1970 had all of the convertible debentures issued in 1967 been converted into common stock on February 1, 1969. These debentures were converted on or prior to April 20, 1970.

Cash dividends per share are based on historical dividends declared by S. S. Kresge Company.

All per share amounts and number of shares have been adjusted for the three-for-one stock split in June, 1972 and for the merger with PMA.

- D. Operations of foreign subsidiaries were included in the foregoing statement at approximate average exchange rates prevailing during the respective years, except that depreciation has been stated on the same basis as the related assets. Adjustments arising from the translation of the foreign currency accounts into U.S. dollars reflected in income are not material. Net income of the foreign retail subsidiaries included in consolidated net income for the five years ended January 30, 1974 approximated 8% in 1970, 11% in 1971, 1972 and 1973 and 9% in 1974.
- E. In 1970, the Company changed its fiscal year to a 52-53 week year ending on the last Wednesday in January. The effect of this change was not significant.
- F. Rental expense was as follows:

	Fiscal year ended in				
	1970	1971	1972	1973	1974
Noncapitalized financing leases as defined by the Securities and Exchange Commission:					
Minimum annual rental.....	\$ 59,559,000	\$ 74,485,000	\$ 93,989,000	\$113,930,000	\$141,735,000
Rental based on sales volume.....	6,360,000	6,483,000	7,424,000	8,375,000	9,799,000
	65,919,000	80,968,000	101,413,000	122,305,000	151,534,000
All other leases.....	2,333,000	3,212,000	2,866,000	3,774,000	4,152,000
	<u>\$ 68,252,000</u>	<u>\$ 84,180,000</u>	<u>\$104,279,000</u>	<u>\$126,079,000</u>	<u>\$155,686,000</u>
Rental income included in licensee fees and rental income.....	<u>\$ 11,761,000</u>	<u>\$ 15,172,000</u>	<u>\$ 18,748,000</u>	<u>\$ 22,937,000</u>	<u>\$ 25,767,000</u>

On the assumptions that SEC-defined financing leases had been capitalized, and estimated executory expenses included in gross leases increased at an annual rate of 3%, net income would have been increased (decreased) \$49,000, (\$181,000), (\$169,000), (\$2,724,000) and (\$4,963,000) for the five fiscal years ended January 30, 1974, respectively. Under such assumptions, amortization of the property rights on a straight-line basis and interest expense on the present value of the outstanding declining balance would have amounted to:

	Fiscal year ended in				
	1970	1971	1972	1973	1974
Amortization of property rights.....	<u>\$ 18,069,000</u>	<u>\$ 21,074,000</u>	<u>\$ 23,590,000</u>	<u>\$ 29,237,000</u>	<u>\$ 36,554,000</u>
Interest expense.....	<u>\$ 13,836,000</u>	<u>\$ 18,348,000</u>	<u>\$ 25,876,000</u>	<u>\$ 38,393,000</u>	<u>\$ 53,395,000</u>

NOTES TO CONSOLIDATED STATEMENT OF INCOME—Continued

G. The ratios of earnings to fixed charges have been computed by dividing earnings before income taxes and fixed charges by fixed charges. For purposes of the ratios, earnings have been determined by deducting from net income the Company's equity in the undistributed income of PMA and by adding thereto consolidated income taxes and fixed charges. For purposes of the ratios "Using one-third of rentals as interest factor", fixed charges consist of interest expense and one-third of the Company's and its consolidated subsidiaries' rental expense, after reducing rental expense by rental income. For purposes of the ratios "Using other appropriate portion of rentals as interest factor", fixed charges consist of interest expense, the interest expense calculated on the present value of the outstanding declining balance on all noncapitalized SEC defined financing leases after reduction for the interest factor considered to be included in rental income, and one-third of all other rents.

The ratios including PMA have been omitted since they would not be substantially different from those shown.

The unaudited pro forma ratio of earnings to fixed charges for the year ended January 30, 1974, adjusted to give effect to the issuance of the Debentures offered hereby and the application of the proceeds thereof, are:

Using one-third of rentals as interest factor.....	5.42
Using other appropriate portion of rentals as interest factor...	4.69

The initial annual interest requirement of the Debentures offered hereby will be \$12,000,000.

Interim Results

Set forth below is a summary of the Company's unaudited consolidated income statement for the 13 weeks ended May 2, 1973 and May 1, 1974. In the opinion of the Company all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for these unaudited interim 13 week periods have been included. The results of operations for the 13 weeks ended May 1, 1974, are not necessarily indicative of the results that may be expected for the fiscal year ending January 29, 1975.

	13 Weeks Ended (Unaudited)	
	May 2, 1973	May 1, 1974
Sales.....	\$914,939,000	\$1,136,373,000
Income before estimated income taxes.....	\$ 43,783,000	\$ 53,795,000
Estimated income taxes.....	\$ 21,230,000	\$ 26,127,000
Net income.....	\$ 22,953,000	\$ 27,727,000
Earnings per common and common equivalent share.....	\$.19	\$.23

Certain amounts for 1973 have been reclassified for comparative purposes and restated to reflect the acquisition of Planned Marketing Associates, Inc. on January 23, 1974, on a pooling of interests basis.

Cost of sales are calculated during interim periods utilizing estimated gross profit rates. A physical inventory to determine actual cost of sales is taken only at the end of each fiscal year.

Inflationary cost pressures, the restraints of Phase IV price controls and the impact of the "energy crises" (see "Business-Energy Shortage") made comparable profit increases more difficult to achieve in 1973. Sales and net income for the first quarter of 1974 were relatively strong despite the weakness in the general economy and the continuing problems of merchandise shortages and widespread inflationary cost increases, which have continued to date. Store pre-opening costs were higher in the period March through July 1974 due to the substantial additional store openings in this period over the comparable period in 1973. In addition, interest costs have continued to increase. Sales continued to be relatively strong in the second quarter. For the nine weeks ended June 26, 1974, sales are estimated at \$952,902,000 or 23.1% over the same nine weeks of 1973. This compares with a 24.2% increase for the 13 weeks ended May 1, 1974. In 1973, May sales were reported up 18.0% and June sales were up 24.3%. In 1974, May sales were up 27.3% and June sales are estimated to be up 18.4%.

The Company's business, like the retail business generally, is subject to seasonal influences. The fourth quarter, which includes Christmas, is the period of highest sales volume, while the first quarter is usually the period of lowest sales volume.

BUSINESS

At January 30, 1974 the Company operated 673 "K mart" stores, 460 "Kresge" stores and 111 "Jupiter" stores in the United States, Canada, Puerto Rico and Australia. The following table sets forth statistical information with respect to the Company's growth in each fiscal year since 1964:

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Stores in Operation										
"K mart".....	88	122	162	216	273	338	411	486	580	673
"Kresge".....	722	674	647	614	593	566	539	520	487	460
"Jupiter".....	75	99	106	113	116	118	123	116	116	111
Total.....	<u>885</u>	<u>895</u>	<u>915</u>	<u>943</u>	<u>982</u>	<u>1,022</u>	<u>1,073</u>	<u>1,122</u>	<u>1,183</u>	<u>1,244</u>
Square Feet of Selling Area (000)										
"K mart".....	4,821	6,724	9,357	12,838	16,463	20,867	26,050	31,370	37,779	44,308
"Kresge".....	9,485	9,288	8,801	8,411	8,175	7,869	7,627	7,368	6,876	6,598
"Jupiter".....	512	701	826	881	859	885	916	877	855	818
Total.....	<u>14,818</u>	<u>16,713</u>	<u>18,984</u>	<u>22,130</u>	<u>25,497</u>	<u>29,621</u>	<u>34,593</u>	<u>39,615</u>	<u>45,510</u>	<u>51,724</u>
Sales (in millions)..	\$ 689	\$ 851	\$1,090	\$1,386	\$1,732	\$2,185	\$2,559	\$3,100	\$3,837	\$4,633
Net Income (in millions).....	17	23*	29	35	48	54	68	98	117	138

*Includes extraordinary credit of \$1,316,000 in 1965.

See Consolidated Statement of Income for the five years ended January 30, 1974 included elsewhere in this Prospectus.

"K mart" Stores

The Company has a current program of opening over 100 "K mart" stores each year. During 1973, 94 new "K mart" stores were opened. The Company expects to open approximately 115 stores during 1974 of which 46 have been opened to date. Sales of "K mart" stores, excluding licensees, were approximately \$2.6 billion in 1971, \$3.3 billion in 1972 and \$4.1 billion in 1973. In the opinion of the Company, suitable sites are available to sustain the current rate of the "K mart" expansion program.

A "K mart" provides a full department store range of first quality merchandise with over 60,000 items. It differs from the conventional department store in its approach to merchandising in that lower selling prices are achieved by rapid inventory turnover, the elimination of limited-appeal or fringe items, and the use of self-service, central check-out operations. The "K mart" stores are one-floor, generally free-standing units, located in high traffic, suburban areas of large and medium-size cities, and provide parking space for approximately 900 cars. These stores generally range in size from 65,000 to 95,000 square feet of gross area (exclusive of supermarkets), of which approximately 78% is selling area. During 1974 the Company expects to open six to eight "K mart" stores in the 40,000 square foot range. These stores will be located in smaller cities and will often be the major general merchandise store in those communities.

In addition to conventional department store lines, including a limited-menu cafeteria, substantially all "K mart" stores contain an auto accessory and service department for the sale of tires, batteries and accessory merchandise which is usually located under the same roof but may be in a separate six-to-ten bay garage. Approximately one-half of the "K mart" stores opened since 1970 also contain a building materials department. Normally supermarkets averaging 20,000 to 25,000 square feet are located under the same roof but with separate check-outs or in adjacent buildings in the same shopping center. Many of these supermarkets are operated by sub-tenants or under trademark agreements by licensees, but the recent trend has been for the supermarkets to be co-tenants. Currently, approximately 92% of all sales in "K mart" stores, exclusive of supermarkets, are made by the Company, and licensees operating primarily shoe and automotive departments are responsible for approximately 8% of sales. In stores opened since 1969, the only major licensee is the operator of the shoe departments.

"K mart" stores have been leased for an initial period of 20 to 25 years with renewal options thereafter. To date most leases have been gross leases providing for payment of a minimum annual rental out of which the landlord is obligated to pay taxes and insurance and maintain the basic structure. In addition, under such leases, the Company is obligated to pay a contingent rental of 1% on sales volume in excess of a specified base. In recent years the trend has been for the Company to enter into leases which provide for the payment of increased taxes which are recoverable before application of any contingent rentals.

"Kresge" Stores

Until 1961, all of the Company's sales were derived from "Kresge" stores, which were primarily concentrated in the Northeast and Midwest sections of the United States and in Canada. The reduction in the number of "Kresge" stores has resulted from normal expiration of leases, from conversions to "Jupiter" stores and from a critical review and disposition of operating units prior to lease termination dates where an adequate return was not being achieved. Sales of "Kresge" stores were approximately \$466 million in 1971, \$471 million in 1972 and \$455 million in 1973.

"Kresge" stores stock approximately 16,000 items of variety store merchandise. Selling area generally ranges from 5,000 to 40,000 square feet and averages approximately 14,000 square feet. Most of these stores contain a fountain or snack bar and operate on a self-service basis with central check-outs. The Company has no plans to open new "Kresge" stores.

"Jupiter" Stores

In 1961, the Company began its "Jupiter" conversion program by renovating six unprofitable "Kresge" stores and reopening them under the "Jupiter" name. These stores generally range in size from 4,000 to 10,000 square feet of selling area. "Jupiter" stores offer from 2,500 to 5,000 items, consisting basically of variety merchandise with emphasis on high turnover lines, promotional activity and discounted prices. "Jupiter" stores are continually evaluated and consequently 46 "Jupiter" stores have been closed since the beginning of the program. Sales of "Jupiter" stores were approximately \$77 million in 1971, \$78 million in 1972 and \$77 million in 1973.

The "Jupiter" program, while basically a defensive marketing program, has resulted in both a significant increase in sales and improved operating results in the converted stores. The conversion program has related primarily to neighborhood areas of large cities, with secondary emphasis on smaller city "main street" locations. Future conversions will depend on local market conditions.

Merchandising

The Company is primarily a national brand merchandiser. Approximately 20% of goods are "private brand" merchandise, mostly under the "K mart" label. The Company does not manufacture merchandise for resale but does contract for a limited amount of merchandise under its specifications.

Retail operations in the United States are administered through five regional offices. A regional Vice President is responsible for all "K mart", "Kresge", and "Jupiter" stores within each region. Store managers are permitted substantial discretion in the selection of merchandise and in the operation of their stores. Merchandise is selected from approved sources and initial selling prices are established by senior buyers in the Troy office. Although the bulk of all merchandise is shipped directly to the stores from over 6,000 principal suppliers, many staple lines and import items are delivered from the Company's distribution centers.

Installment credit facilities operated by outside financial institutions are available in all "K mart" stores for financing major purchases. In 1970 the Company entered into agreements with various banks allowing major credit cards (BankAmericard and Master Charge) to be used in most "K mart" and some "Kresge" and "Jupiter" stores in the United States. Sales under these agreements in 1971, 1972 and 1973 were approximately \$104 million, \$188 million and \$305 million, respectively. In addition the Company has a revolving credit program which is available in all "K mart" stores and in many "Kresge" and "Jupiter" stores. Credit sales under this program in 1973 were approximately \$186 million. Loss experience as a percentage of total credit sales under the program during the past four years has averaged 4.1% and was 2.8% for 1973, including all charges to the allowance for possible losses.

The Company's two principal wholly-owned domestic subsidiaries are Holly Stores, Inc. and K mart Enterprises, Inc. Holly Stores, Inc. operates the ladies' ready-to-wear departments in all United States "K mart" stores. K mart Enterprises, Inc. operates sporting goods departments in all United States "K mart" stores and automotive departments in all "K mart" stores opened since February 1, 1969. Automotive departments in 190 United States "K mart" stores are currently operated by a licensee, and will be assumed by the Company in stages over the next four years.

In order to fill the anticipated requirements for store managers and other executive personnel, the Company maintains a substantial executive training program. As of January 30, 1974, there were more than 3,700 women and men in this program.

International Operations

S. S. Kresge Company Limited, a wholly-owned subsidiary, operates a chain of 143 stores, including 61 "K mart", 71 "Kresge" and 11 "Jupiter" stores throughout Canada, managed along organization lines similar to the parent company. K mart (Australia) Limited was established to develop "K mart" stores in Australia beginning in 1969 and now operates 17 "K mart" stores, similar in size and design to the United States stores. This corporation is 51% owned by the Company and 49% owned by G. J. Coles & Coy, Ltd., a major food and general merchandise retailer in Australia. The merchandising and operations are conducted along lines similar to the parent company.

Insurance Subsidiary

In January 1974, the Company acquired all of the outstanding common stock of Planned Marketing Associates, Inc. ("PMA") in exchange for 1,912,846 shares of the Company's Common Stock. PMA, primarily through two of its subsidiaries, Lone Star Life Insurance Company and TIPS General Agency, Inc., is principally engaged in underwriting life and accident and health insurance, and in designing and mass marketing a wide range of life, accident and health, property and casualty and other insurance policies. PMA's marketing efforts at the present time are primarily directed toward the independent food distribution industry.

Energy Shortage

Although the energy shortage had an impact on the Company's 1973 Christmas sales of trees, lights and ornaments, the Company does not believe that the shortage will adversely affect its future operations, except to the extent that such shortage may unpredictably affect the economy in general.

Price Stabilization

Although price controls on general merchandise retailers were lifted on February 1, 1974, the Company, together with certain other major retailers, voluntarily agreed to hold pre-tax profit margins for the first half of its 1974 fiscal year to a level no higher than that achieved in fiscal 1973. The Company does not believe that compliance with this agreement will adversely affect its operations.

MANAGEMENT

The directors and officers of the Company are as follows:

<u>Name</u>	<u>Position</u>
Robert E. Dewar*	Chairman of the Board and Chief Executive Officer
Walter H. Teninga*	Vice Chairman of the Board and Chief Financial and Development Officer
Ervin E. Wardlow*	President and Chief Operating Officer and Director
Robert H. Griffin	Executive Vice President, Merchandising and Director
Grant W. Morck	Executive Vice President, Store Management and Director
Richard H. Falck	Senior Vice President, Sales and General Merchandise Manager

<u>Name</u>	<u>Position</u>
Chester E. Boyd	General Vice President
Edward C. Andrews	Vice President, Southern Region
Carl L. Bloom	Vice President, Central Region
Robert E. Brewer	Vice President-Treasurer
Harvey E. Chapman	Vice President, Transportation and Distribution
Roger E. Davis	Vice President-General Counsel and Secretary
Kenneth L. Dunkel	Vice President, Merchandise Systems and Distribution Center Operations
Bernard M. Fauber	Vice President, Western Region
Dale A. Feet	Vice President-General Controller
Russell A. Hansen	Vice President and Director of Sales Promotion
John P. Johnson	Vice President, Real Estate
Henry G. McIntosh	Vice President, Management Services
Arthur E. Riley	Vice President, Eastern Region
Harold O. Scarlett	Vice President, Construction
Robert J. Young	Vice President, Midwestern Region
Lee W. Zane	Vice President, Personnel and Employee Relations
Harry B. Cunningham*	Director and Honorary Chairman of the Board
A.H. Aymond	Director
Arnold H. Bachner	Director and Chairman of the Board and Chief Executive Officer of Holly Stores, Inc.
William H. Baldwin*	Director
Henry T. Bodman	Director
Morgan Collins	Director
Stanley S. Kresge	Director
Rolland Lawson	Director and President and Managing Director of S.S. Kresge Company Limited
Paul W. McCracken	Director
Robert W. Purcell	Director
George Russell	Director

*Member, Executive Committee

DESCRIPTION OF DEBENTURES

The Debentures are to be issued under an Indenture (the "Indenture") to be dated as of July 15, 1974 between the Company and Bankers Trust Company, Trustee (the "Trustee"). The Debentures are limited to \$200,000,000 principal amount.

The Debentures will mature on July 15, 1999 and will be issued, in fully registered form only, in denominations of \$1,000 and any multiple thereof. Interest on the Debentures, at the annual rate set forth on the cover page hereof, will accrue from July 15, 1974 and will be payable semi-annually on July 15 and January 15 to the persons in whose names the Debentures are registered at the close of business on the preceding June 30, or December 31, and will be paid by checks mailed to such persons at their registered addresses.

The Indenture contains no restriction on the amount of indebtedness which the Company may incur. Under the Note Purchase Agreements relating to the Company's $3\frac{1}{8}\%$ Promissory Notes due January 15, 1975, the Company has agreed, among other things, that it will not incur Funded Debt (as defined, to include

Subordinated Debt) unless after giving effect thereto Consolidated Net Worth (as defined) would be at least 250% of Consolidated Funded Debt (as defined). The Purchase Agreements relating to the Company's 4 $\frac{7}{8}$ % Notes due December 16, 1983 contain a similar, although less restrictive, limitation on indebtedness.

The following statements are subject to the detailed provisions of the Indenture, a copy of which is filed as an exhibit to the Registration Statement, of which this Prospectus is a part. References in italics are to the Indenture. Wherever particular provisions of the Indenture are referred to, such provisions are incorporated by reference as a part of the statements made, and the statements are qualified in their entirety by such reference.

Conversion Rights

The Debentures will be convertible at their principal amount into Common Stock of the Company at any time on or prior to July 15, 1999 (unless a Debenture shall have been called for redemption in which case until and including the fifteenth day prior to the date fixed for redemption) at the Conversion Price set forth on the cover page of this Prospectus. (*Section 5.01*) If Debentures are called for redemption, the right to convert will be lost unless it is exercised on or before the fifteenth day prior to the date fixed for redemption.

The Conversion Price set forth on the cover page of this Prospectus will be subject to adjustment in certain circumstances, including the original issuance of Common Stock of the Company as a dividend or for a consideration less than the Conversion Price then in effect (to the extent not offset by prior issuances for a consideration higher than the Conversion Price) and subdivisions, combinations or reclassifications of such Common Stock. (*Section 5.04*) Subject to the right of the person in whose name a Debenture is registered on June 30 or December 31, as the case may be, next preceding an interest payment date, to receive the interest so payable on such interest payment date, no adjustment in respect of interest or dividends shall be made upon the conversion of any Debenture. (*Sections 5.01 and 5.03*) No adjustment of the Conversion Price will be required to be made in any case in which the amount of the adjustment, together with the amount of any previous adjustments of less than \$1.00 per share which shall have been carried forward, would be less than \$1.00 per share of Common Stock, and no adjustment will be required to be made as a result of the issuance of shares of Common Stock pursuant to present or future stock option plans or agreements, stock purchase plans or other incentive or benefit plans for officers or employees of the Company and its subsidiaries, or as a result of the issuance of shares of Common Stock by the Company in connection with the acquisition of property, including going concern businesses, by merger, consolidation or purchase of stock or assets. (*Section 5.04*)

No fractional shares of Common Stock will be issued upon any conversion but the Indenture provides that the Company shall make an adjustment therefor in cash. (*Section 5.05*)

Conversion of Debentures may be effected by delivering them to the Company for exchange at the corporate trust office of Bankers Trust Company, New York, New York.

Subordination of Debentures

The Indenture provides that the payment of principal of and premium, if any, and interest on the Debentures, including sinking fund payments, shall be subordinated in right of payment to the extent set forth in the Indenture to the prior payment in full of the principal of and premium, if any, and interest on all Senior Indebtedness, and after default in payment of Senior Indebtedness or an event of default permitting the acceleration of Senior Indebtedness, no payment on account of principal or premium, if any, or interest, including sinking fund payments, may be made on the Debentures. (*Sections 3.01 and 3.05*) Upon any payment or distribution of assets of the Company to creditors upon any dissolution, winding up, total or partial liquidation or reorganization of the Company, or in bankruptcy, insolvency, receivership or other proceedings, Senior Indebtedness shall first be paid in full before any payment is made in respect of the Debentures. (*Section 3.02*) Senior Indebtedness includes (i) all present and future indebtedness for money borrowed by the Company, for obligations of the Company sold by it for money, or representing purchase money indebtedness, as evidenced by notes, bonds, debentures or other debt securities, and any indebtedness of such type guaranteed or assumed by the Company, and (ii) all deferrals, renewals, extensions and refundings of any such indebtedness; unless the terms of the instrument creating or evidencing any such indebtedness provide that it is not Senior Indebtedness. (*Section 1.01*) Accordingly, Senior Indebtedness will include all

of the outstanding indebtedness of the Company (other than the Debentures) listed under "Capitalization" herein. In the event of a ratable distribution in insolvency, creditors of the Company who are not holders of Senior Indebtedness or of the Debentures may, by reason of such subordination, recover less than holders of Senior Indebtedness and may recover more than the holders of the Debentures.

Redemption Provisions

The Debentures are to be redeemable at the option of the Company, at any time as a whole or from time to time in part, on not less than thirty nor more than sixty days' prior notice, unless at the time of mailing of such notice the Company shall be prohibited by the Indenture from making a payment with respect to the Debentures (see "Subordination of Debentures" herein) or an Event of Default (as defined) has occurred, at the following prices (expressed in percentages of the principal amount), together with interest accrued to the date fixed for redemption:

If redeemed during the twelve-month period beginning July 15,

<u>Year</u>	<u>Percentage</u>	<u>Year</u>	<u>Percentage</u>
1974.....	106.00%	1985.....	102.70%
1975.....	105.70	1986.....	102.40
1976.....	105.40	1987.....	102.10
1977.....	105.10	1988.....	101.80
1978.....	104.80	1989.....	101.50
1979.....	104.50	1990.....	101.20
1980.....	104.20	1991.....	100.90
1981.....	103.90	1992.....	100.60
1982.....	103.60	1993.....	100.30
1983.....	103.30	and thereafter at.....	100.00
1984.....	103.00		

The Debentures are to be redeemable on similar notice through the operation of the Sinking Fund described below at the principal amount thereof, together with interest accrued to the date fixed for redemption. (*Section 4.04*)

Sinking Fund

The Indenture requires the Company to provide for the retirement by redemption at the principal amount with accrued interest of \$11,000,000 principal amount of the Debentures on July 15 in each of the years 1985 to and including 1998 through the operation of the Sinking Fund. The Company may also, at its option, provide for the retirement of up to an additional \$11,000,000 principal amount of the Debentures through the operation of the Sinking Fund on July 15 in each of the years 1985 to 1998 inclusive, such optional right being noncumulative. The Company may, at its option receive credit against Sinking Fund payments for the principal amount of (a) Debentures acquired (otherwise than by redemption) by the Company and surrendered for cancellation (b) Debentures redeemed or called for redemption (otherwise than through the operation of the Sinking Fund) and (c) Debentures converted into Common Stock of the Company. The Company may reduce the amount of the payment for the Sinking Fund in any year by an amount equal to the aggregate principal amount of any Debentures called or designated for redemption through operation of the Sinking Fund and converted into Common Stock after such call or designation. (*Article Four*)

Modification of the Indenture

The Indenture contains provisions permitting the Company and the Trustee, with the consent of the holders of not less than 66 $\frac{2}{3}$ % in principal amount of the Debentures at the time outstanding, to modify the Indenture or any supplemental indenture or the rights of the holders of the Debentures, except that no such modification shall (i) extend the fixed maturity of any Debentures, or reduce the principal amount thereof or reduce the rate or extend the time of payment of interest thereon or reduce any premium payable upon the redemption thereof or alter the provisions of the Indenture so as to affect adversely the terms of conversion of the Debentures into Common Stock without the consent of the holder of each Debenture so affected, or (ii) reduce the aforesaid percentage of Debentures, the consent of the holders of

which is required for any such modification, without the consent of the holders of all outstanding Debentures. (*Section 12.02*)

Defaults

The Indenture provides that an Event of Default will be (i) default for 30 days in payment of interest on the Debentures; (ii) default in payment of principal (or premium, if any) on the Debentures or of any sinking fund installment; (iii) default for 60 days after notice in performance of any other covenant in the Indenture; (iv) default, as defined in any indenture or instrument under which the Company or any Subsidiary (as defined) has outstanding any indebtedness for borrowed money, after notice and the expiration of the grace period in respect thereof, unless such default under such indebtedness is cured or waived; and (v) certain events of bankruptcy, insolvency, or reorganization. (*Section 8.01*)

The Indenture includes a covenant that the Company will file annually with the Trustee a statement regarding compliance with the terms of the Indenture and specifying any defaults of which the signers may have knowledge. (*Section 6.05*)

The Indenture provides that the Trustee shall, within ninety days after the occurrence of a default, give to the debentureholders notice of all uncured or unwaived defaults known to it; provided, that except in the case of default in the payment of principal (or premium, if any) or interest on any of the Debentures or the payment of any sinking fund installment, the Trustee shall be protected in withholding such notice if it in good faith determines that the withholding of such notice is in the interest of the debentureholders. (*Section 8.07*)

The Trustee

Bankers Trust Company is Trustee under the Indenture. The Company maintains banking relationships in the ordinary course of business with Bankers Trust Company.

The Indenture contains certain limitations on the right of the Trustee, as a creditor of the Company, to obtain payment of claims in certain cases or to realize on certain property received in respect of any such claim as security or otherwise. (*Section 9.13*)

The holders of a majority in principal amount of all outstanding Debentures shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee. (*Section 8.06*) The Indenture provides that in case an Event of Default shall occur (which shall not have been cured) the Trustee, in the exercise of its rights and powers under the Indenture, will be required to use the degree of care and skill of a prudent man in the conduct of his own affairs. (*Section 9.01*) Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any of the debentureholders, unless they shall have offered to the Trustee reasonable security or indemnity. (*Section 9.02*)

DESCRIPTION OF CAPITAL STOCK

General

The Company is authorized to issue 10,000,000 shares of Preferred Stock, no par value, issuable in series, none of which has been issued, and 250,000,000 shares of Common Stock, par value \$1 per share.

The Preferred Stock may be issued in one or more series, the number of shares and the distinctive designation of each such series being determined by the Board of Directors. All shares of the Preferred Stock will be identical except as to the following rights and preferences as to which there may be variations between different series as fixed and determined by the Board of Directors: (a) the rate of dividend and the extent of further participation in dividend distribution, if any; (b) the price at and the terms and conditions on which the shares are redeemable; (c) the amount payable upon shares in the event of voluntary or involuntary liquidation; (d) sinking fund provisions for the redemption or purchase of shares; and (e) the terms and conditions on which such shares are convertible.

Dividend Rights

The holders of Common Stock are entitled to dividends when and as declared from income retained for use in the business by the Board of Directors. However, in the event there is Preferred Stock outstanding, no dividends (other than dividends payable in Common Stock) shall be paid on Common Stock if cash dividends in full on all outstanding shares of Preferred Stock to which the holders thereof are entitled shall not have been paid or declared and set apart for payment. Under the provisions of its note purchase agree-

ments the Company is subject to restrictions relating to income retained for use in the business, working capital and indebtedness, each of which may affect the payment of dividends, distributions to shareholders and acquisitions of capital stock. At January 30, 1974, income retained for use in the Company's business and available for cash dividends and other stock distributions and acquisitions was approximately \$504 million in excess of the amount so restricted.

Voting Rights

At every meeting of shareholders, the holders of Common Stock shall have the right, with the holders of Preferred Stock in the event there is Preferred Stock outstanding, to vote in the election of directors and upon each other matter coming before any meeting of the shareholders on the basis of one vote for each share held.

Liquidation Rights

In the event of any liquidation, dissolution or winding up of the Company, the holders of Common Stock shall be entitled, after payment or provisions for payment of the debts and other liabilities of the Company and the amounts to which the holders of any outstanding shares of Preferred Stock shall be entitled (as determined by the Board of Directors at the time of issuance of any such shares), in the event Preferred Stock is outstanding, to share ratably in the remaining net assets.

Preemptive Rights

The holders of Common Stock shall have no preemptive right to subscribe for any additional shares of capital stock or other obligations convertible into shares of capital stock which may hereafter be issued.

Liability for Further Calls

The Common Stock is fully paid and non-assessable. Holders of outstanding Common Stock are not liable to further calls or assessments, except for the liability imposed by the laws of the State of Michigan for labor debts, such liability being secondary to the Company's primary liability.

Transfer Agents and Registrars

The Transfer Agents and Registrars for the Common Stock of the Company are National Bank of Detroit, Detroit, Michigan, The Chase Manhattan Bank National Association, New York, New York and United California Bank, Los Angeles, California.

UNDERWRITERS

Under the terms and subject to the conditions in an Underwriting Agreement dated July 24, 1974, the Underwriters named below have severally agreed to purchase, and the Company has agreed to sell each Underwriter, severally, the respective amounts of Debentures set forth below.

Name	Principal Amount	Name	Principal Amount
Morgan Stanley & Co. Incorporated.....	\$ 31,300,000	Boettcher & Company.....	\$ 600,000
ABD Securities Corporation.....	1,000,000	Bosworth, Sullivan & Company, Inc.....	300,000
Advest Co.....	1,000,000	J. C. Bradford & Co.....	1,000,000
Alden & Co., Inc.....	150,000	Alex. Brown & Sons.....	1,700,000
Allen & Company Incorporated.....	1,000,000	Bruns, Nordeman, Rea & Co.....	200,000
American Securities Corporation.....	1,000,000	Burgess & Leith.....	200,000
A. E. Ames & Co. Incorporated.....	400,000	Butcher & Singer.....	600,000
Anderson & Strudwick.....	200,000	The Chicago Corporation.....	400,000
Arnhold and S. Bleichroeder, Inc.....	1,000,000	B. C. Christopher & Company.....	150,000
Arthurs, Lestrangle & Short.....	150,000	City Securities Corporation.....	300,000
Auerbach, Pollak & Richardson, Inc.....	300,000	Colin, Hochstin Co.....	150,000
Bacon, Whipple & Co.....	1,000,000	Julien Collins & Company.....	150,000
Robert W. Baird & Co. Incorporated.....	1,000,000	Craigie, Mason-Hagan, Inc.....	200,000
Baker, Watts & Co.....	200,000	Crowell, Weedon & Co.....	600,000
Basle Securities Corporation.....	1,700,000	Cunningham, Schmertz & Co., Inc.....	150,000
Bateman Eichler, Hill Richards Incorporated	1,000,000	Dain, Kalman & Quail, Incorporated.....	1,000,000
George K. Baum & Company, Incorporated	150,000	Daiwa Securities America Inc.....	400,000
Bear, Stearns & Co.....	1,700,000	Daniels & Bell, Incorporated.....	150,000
A. G. Becker & Co. Incorporated.....	1,700,000	Davenport & Co. of Virginia, Inc.....	200,000
Birr, Wilson & Co., Inc.....	300,000	Davis, Skaggs & Co., Inc.....	200,000
D. H. Blair & Company.....	150,000	De Haven & Townsend, Crouter & Bodine...	150,000
William Blair & Company.....	1,000,000	R. G. Dickinson & Co.....	150,000
Blunt Ellis & Simmons Incorporated.....	1,000,000	Dillon, Read & Co. Inc.....	2,800,000
Blyth Eastman Dillon & Co. Incorporated..	2,800,000		

Name	Principal Amount
Doft & Co., Inc.	\$ 300,000
Dominion Securities Harris & Partners Inc.	400,000
Drexel Burnham & Co. Incorporated	2,800,000
Edwards & Hanly	1,000,000
Elkins, Morris, Stroud & Co.	600,000
Eppler, Guerin & Turner, Inc.	300,000
Equitable Securities Corporation	150,000
EuroPartners Securities Corporation	1,000,000
Fahnestock & Co.	600,000
Faulkner, Dawkins & Sullivan Securities Corp.	1,000,000
Ferris & Company, Incorporated	200,000
First Albany Corporation	150,000
The First Boston Corporation	3,400,000
First Equity Corporation of Florida	200,000
First Harlem Securities Corporation	150,000
First Manhattan Co.	150,000
First of Michigan Corporation	1,000,000
First Southwest Company	300,000
Robert Fleming Incorporated	1,700,000
Folger Nolan Fleming Douglas Incorporated	1,000,000
Foster & Marshall Inc.	150,000
Freehling & Co.	150,000
Fry Mills Spence Inc.	150,000
Fulton, Reid & Staples, Inc.	400,000
Robert Garrett & Sons, Inc.	300,000
Goldman, Sachs & Co.	3,400,000
Gradison & Company Incorporated	200,000
Greenshields & Co Inc.	400,000
Gruntal & Co.	200,000
Hambrecht & Quist	200,000
Halsey, Stuart & Co. Inc.	2,800,000
Harris, Upham & Co. Incorporated	1,700,000
Hayden Stone Inc.	1,700,000
The Heitner Corp.	150,000
Herzfeld & Stern	200,000
J. J. B. Hilliard, W. L. Lyons, Inc.	400,000
Hoppin, Watson Inc.	300,000
Hornblower & Weeks-Hemphill, Noyes Incorporated	2,800,000
Howard, Weil, Labouisse, Friedrichs Incorporated	600,000
Howe, Barnes & Johnson, Inc.	200,000
E. F. Hutton & Company Inc.	2,800,000
The Illinois Company Incorporated	300,000
Interstate Securities Corporation	300,000
Investment Corporation of Virginia	200,000
Janney Montgomery Scott Inc.	600,000
Johnston, Lemon & Co. Incorporated	600,000
Edward D. Jones & Co.	300,000
Joseph, Mellen & Miller, Inc.	300,000
Josephthal & Co.	300,000
Kidder, Peabody & Co. Incorporated	2,800,000
Kirkpatrick, Pettis, Smith, Polian Inc.	150,000
Kleinwort, Benson Incorporated	1,700,000
Kormendi, Byrd Brothers, Inc.	200,000
Kuhn, Loeb & Co.	2,800,000
Ladenburg, Thalmann & Co. Inc.	1,000,000
Laidlaw-Coggeshall Inc.	200,000
Lazard Freres & Co.	2,800,000
Legg Mason/Wood Walker Div. of First Regional Securities, Inc.	600,000
Lehman Brothers Incorporated	3,400,000
Lepercq, de Neufize & Co. Incorporated	400,000
Loeb, Rhoades & Co.	2,800,000
Loewi & Co. Incorporated	600,000
Manley, Bennett, McDonald & Co.	600,000
A. E. Masten & Co. Incorporated	150,000
McCormick & Co., Incorporated	200,000
McDonald & Company	1,000,000
McLeod, Young, Weir, Incorporated	300,000
McMaster Hutchinson & Co.	300,000

Name	Principal Amount
Merrill Lynch, Pierce, Fenner & Smith Incorporated	\$3,400,000
Mesirow & Company	150,000
The Milwaukee Company	400,000
Mitchell, Hutchins Inc.	1,000,000
Moore, Leonard & Lynch, Incorporated	400,000
Moore & Schley, Cameron & Co.	300,000
Morgan & Cie International S.A.	1,700,000
Morgan, Keegan & Company, Inc.	150,000
Moseley, Hallgarten & Estabrook Inc.	1,700,000
Murch & Co., Inc.	150,000
Nesbitt Thomson Securities, Inc.	150,000
New Court Securities Corporation	1,700,000
Newhard, Cook & Co. Incorporated	300,000
The Nikko Securities Co. International, Inc.	400,000
Nomura Securities International, Inc.	400,000
The Ohio Company	600,000
Olde & Co. Incorporated	150,000
Oppenheimer & Co.	1,700,000
Paine, Webber, Jackson & Curtis Incorporated	2,800,000
Parker/Hunter Incorporated	400,000
H. O. Peet & Co. Inc.	150,000
The Pennsylvania Group Incorporated	200,000
Piper, Jaffray & Hopwood Incorporated	1,000,000
Pitfield, Mackay & Co., Inc.	200,000
Prescott, Ball & Turben	1,000,000
R. W. Pressprich & Co. Incorporated	1,700,000
Quinn & Co., Inc.	150,000
Raffensperger, Hughes & Co., Inc.	150,000
Rauscher Pierce Securities Corporation	1,000,000
Reinholdt & Gardner	1,000,000
Reynolds Securities Inc.	2,800,000
Richardson Securities, Inc.	150,000
Robertson, Colman, Siebel & Weisel	150,000
The Robinson-Humphrey Company, Inc.	1,000,000
Rodman & Renshaw, Inc.	150,000
Wm. C. Roney & Co.	300,000
Roose, Wade & Company	150,000
Rotan Mosle Inc.	600,000
L. F. Rothschild & Co.	1,700,000
R. Rowland & Co. Incorporated	200,000
J. N. Russell Inc.	150,000
Salomon Brothers	2,800,000
Scherck, Stein & Franc, Inc.	300,000
Schmidt, Roberts & Parke, Inc.	200,000
Schneider, Bernet & Hickman, Inc.	150,000
Scott & Stringfellow, Inc.	200,000
Seasongood & Mayer	150,000
Seidler, Arnett, Spillane & Harris Incorporated	200,000
Shields Securities Corporation	1,700,000
Shuman, Agnew & Co., Inc.	1,000,000
I. M. Simon & Co.	150,000
Smith, Barney & Co. Incorporated	2,800,000
Smith, Hague & Co., Incorporated	150,000
SoGen-Swiss International Corporation	1,700,000
Steiner, Rouse & Co., Inc.	200,000
Stephens Inc.	400,000
Stern Brothers & Co.	400,000
Stern, Frank, Meyer & Fox, Incorporated	400,000
Sterne, Agee & Leach, Inc.	200,000
Stifel, Nicolaus & Company Incorporated	300,000
Stix & Co. Inc.	150,000
Stone & Webster Securities Corporation	2,800,000
Stone & Youngberg	300,000
Stuart Brothers	400,000
Sutro & Co. Incorporated	600,000
Thomson & McKinnon Auchincloss Kohlmeier Inc.	1,700,000
Spencer Trask & Co. Incorporated	1,700,000

Name	Principal Amount	Name	Principal Amount
Traub and Company, Inc.....	\$ 150,000	Weeden & Co. Incorporated.....	\$ 1,700,000
Tucker, Anthony & R. L. Day.....	1,700,000	Wertheim & Co., Inc.....	2,800,000
UBS-DB Corporation.....	1,700,000	Wheat, First Securities, Inc.....	1,000,000
Ultrafin International Corporation.....	400,000	White, Weld & Co. Incorporated.....	2,800,000
Underwood, Neuhaus & Co., Incorporated	300,000	Dean Witter & Co. Incorporated.....	2,800,000
Ungerleider, Haidas & Co., Incorporated...	150,000	William D. Witter, Inc.....	600,000
C. E. Unterberg, Towbin Co.....	1,000,000	Wood, Struthers & Winthrop Inc.....	1,700,000
Wagenseller & Durst, Inc.....	300,000	Yamaichi International (America), Inc....	400,000
G. H. Walker, Laird Incorporated.....	1,700,000	Zuckerman, Smith & Co.....	150,000
Warburg-Paribas, Inc.....	1,700,000		
Watling, Lerchen & Co. Incorporated.....	600,000		
			<u>\$200,000,000</u>

The Underwriting Agreement provides that the obligations of the several Underwriters are subject to the approval of certain legal matters by counsel and to the conditions that no stop order suspending the effectiveness of the Registration Statement is in effect and no proceedings for such purpose are pending before or threatened by the Securities and Exchange Commission and that there has been no material adverse change (not in the ordinary course of business) in the condition of the Company and its subsidiaries from that set forth in the Registration Statement. The nature of the Underwriters' obligations is such that they are committed to take and pay for all of the Debentures if any are taken.

The Underwriters propose to offer part of the Debentures directly to the public at the public offering price set forth on the cover page hereof and part to dealers at a price which represents a concession of .55% of the principal amount under the public offering price, and any Underwriter may offer Debentures to certain dealers who are either a parent or a subsidiary of such Underwriter at not less than such price to dealers. The Underwriters may allow and such dealers may reallow a concession, not in excess of .25% of the principal amount, to certain other dealers.

The Company has agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

LEGAL OPINIONS

The legality of the Debentures being offered hereby will be passed upon for the Company by Dickinson, Wright, McKean & Cudlip, 800 First National Building, Detroit, Michigan, and for the Underwriters by Davis Polk & Wardwell, 1 Chase Manhattan Plaza, New York, New York. Members of the firm of Dickinson, Wright, McKean & Cudlip participating in matters relating to this offering own 725 shares of the Company's Common Stock.

EXPERTS

The consolidated financial statements included in this Prospectus have been so included by the Company in reliance upon the report of Price Waterhouse & Co., independent accountants, and on their authority as experts in auditing and accounting.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board
of Directors of S. S. Kresge Company:

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of capital in excess of par value, income retained for use in the business and changes in financial position, together with the consolidated statement of income appearing elsewhere in this Prospectus, present fairly the consolidated financial position of S. S. Kresge Company and its subsidiary companies at January 30, 1974 and the results of their operations and the changes in financial position for the five years then ended, all in conformity with generally accepted accounting principles consistently applied. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

March 15, 1974
Detroit, Michigan

PRICE WATERHOUSE & CO.

**S. S. KRESGE COMPANY
and Subsidiary Companies**
CONSOLIDATED BALANCE SHEET—January 30, 1974

ASSETS

Current Assets:	
Cash.....	\$ 76,815,000
Certificates of deposit.....	871,000
Marketable securities, at cost approximating market.....	22,973,000
Accounts receivable—	
Customers, less allowance of \$5,388,000 for possible losses.....	110,710,000
Other.....	21,798,000
Merchandise inventories (Notes 1 and 2).....	1,002,360,000
Operating supplies and prepaid expenses.....	27,335,000
Total current assets.....	<u>1,262,862,000</u>
Investment in Unconsolidated Insurance Subsidiary.....	<u>21,292,000</u>
Other Assets and Deferred Charges.....	<u>15,660,000</u>
Fixed Assets, at cost (Note 1):	
Land.....	32,223,000
Buildings.....	81,276,000
Leasehold improvements.....	75,914,000
Furniture and fixtures.....	398,175,000
Construction in progress.....	12,431,000
	<u>600,019,000</u>
Less—Depreciation and amortization.....	247,060,000
	<u>352,959,000</u>
	<u><u>\$1,652,773,000</u></u>

LIABILITIES

Current Liabilities:	
Portion of long-term debt due within one year (Note 5).....	\$ 2,176,000
Notes payable (Note 3).....	86,863,000
Accounts payable—trade.....	392,229,000
Accrued taxes other than U.S. and foreign income taxes.....	52,511,000
Accrued payrolls and other liabilities.....	65,780,000
Dividend payable.....	5,983,000
U.S. and foreign income taxes (Note 4).....	53,310,000
Total current liabilities.....	<u>658,852,000</u>
Deferred Gain on Sales and Leasebacks.....	<u>9,196,000</u>
Deferred U.S. and Foreign Income Taxes (Note 4).....	<u>35,129,000</u>
Long-Term Debt, less portion due within one year (Note 5).....	<u>21,065,000</u>
Minority Interest in Australian Subsidiary (capital of \$2,470,000 plus accumulated earnings of \$1,549,000).....	<u>4,019,000</u>
Stockholders' Equity:	
Capital stock (Notes 6 and 7)—	
Preferred stock, authorized 10,000,000 shares of no par value—none issued	—
Common stock, authorized 250,000,000 shares of \$1.00 par value—issued 119,661,367 shares.....	119,661,000
Capital in excess of par value (statement attached).....	171,333,000
Income retained for use in the business (statement attached) (Note 5).....	633,518,000
	<u>924,512,000</u>
Commitments (Note 9).....	<u>—</u>
	<u><u>\$1,652,773,000</u></u>

See Notes to Consolidated Financial Statements

**S. S. KRESGE COMPANY
and Subsidiary Companies**

CONSOLIDATED STATEMENT OF CAPITAL IN EXCESS OF PAR VALUE

	Fiscal Year Ended				
	January 31, 1970	January 27, 1971	January 26, 1972	January 31, 1973	January 30, 1974
Balance at beginning of year restated for pooling of interests	\$ 14,115,000	\$ 21,524,000	\$ 64,220,000	\$ 77,281,000	\$160,661,000
Change in par value and three-for-one stock split in June 1972, including expenses of \$289,000.....				(49,035,000)	
Excess of proceeds over par value of common stock sold under stock option and purchase plans.....	5,886,000	3,010,000	10,655,000	12,880,000	10,378,000
Excess of value received over cost of treasury shares issued in acquisition.....			2,312,000		
Excess of face value of 5% debentures converted over par value of common stock, less related unamortized expenses.....				115,756,000	
Excess of face value of 4½% debentures converted over par value of common stock, less related unamortized expenses and cash paid in lieu of fractional shares.....	1,486,000	32,618,000			
Federal income tax benefits from stock option plans.....					266,000
Transactions of insurance subsidiary prior to merger.....	37,000	7,068,000	94,000	3,779,000	28,000
Balance at end of year.....	<u>\$ 21,524,000</u>	<u>\$ 64,220,000</u>	<u>\$ 77,281,000</u>	<u>\$160,661,000</u>	<u>\$171,333,000</u>

**CONSOLIDATED STATEMENT OF INCOME RETAINED
FOR USE IN THE BUSINESS**

	Fiscal Year Ended				
	January 31, 1970	January 27, 1971	January 26, 1972	January 31, 1973	January 30, 1974
Balance at beginning of year restated for pooling of interests	\$249,508,000	\$290,073,000	\$341,774,000	\$421,221,000	\$518,897,000
Net income for the year.....	54,406,000	67,639,000	97,680,000	117,075,000	138,251,000
Cash dividends declared.....	(13,841,000)	(15,938,000)	(18,233,000)	(19,399,000)	(23,630,000)
Balance at end of year (Note 5).	<u>\$290,073,000</u>	<u>\$341,774,000</u>	<u>\$421,221,000</u>	<u>\$518,897,000</u>	<u>\$633,518,000</u>

See Notes to Consolidated Financial Statements

S. S. KRESGE COMPANY
and Subsidiary Companies

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Fiscal Year Ended				
	January 31, 1970	January 27, 1971	January 26, 1972	January 31, 1973	January 30, 1974
Financial Resources were Provided by:					
Net income for the year.....	\$ 54,406,000	\$ 67,639,000	\$ 97,680,000	\$117,075,000	\$138,251,000
Add (deduct) income charges (credits) not affect- ing working capital—					
Depreciation and amortization.....	20,385,000	23,737,000	27,642,000	31,781,000	35,377,000
Increase in deferred U. S. and foreign income taxes.....	1,144,000	1,475,000	2,562,000	3,271,000	5,293,000
Undistributed net income of unconsolidated insurance subsidiary.....	(317,000)	(645,000)	(1,564,000)	(2,401,000)	(2,209,000)
Other.....	(607,000)	(1,405,000)	56,000	(334,000)	(192,000)
Working capital provided by operations.....	75,011,000	90,801,000	126,376,000	149,392,000	176,520,000
Proceeds from sale of fixed assets—					
Properties sold and leased back, including deferred gain of \$9,268,000.....					31,690,000
Other properties.....	3,372,000	2,602,000	1,394,000	4,968,000	2,641,000
Increase in common stock from—					
Sale under stock option and purchase plans..	6,219,000	3,141,000	11,175,000	13,505,000	10,813,000
Conversion of 5% convertible debentures, less related unamortized expenses.....				122,766,000	
Sale of 5% convertible debentures, less related expenses of \$1,406,000.....		123,594,000			
Proceeds from long-term borrowings.....			8,560,000		
Transactions of unconsolidated insurance sub- sidiary prior to merger, principally sale of stock	52,000	8,085,000	113,000	3,889,000	44,000
Other.....	317,000	645,000	5,561,000	6,793,000	4,926,000
	<u>84,971,000</u>	<u>228,868,000</u>	<u>153,179,000</u>	<u>301,313,000</u>	<u>226,634,000</u>
Financial Resources were Used for:					
Additions to fixed assets.....	49,065,000	58,720,000	82,539,000	65,781,000	74,566,000
Cash dividends declared.....	13,841,000	15,938,000	18,233,000	19,399,000	23,630,000
Increase in investment in unconsolidated insur- ance subsidiary.....	369,000	8,730,000	1,677,000	6,290,000	2,250,000
Reduction in long-term debt, including \$125,000,000 on conversion of 5% convertible debentures in the year ended January 31, 1973	1,762,000	1,880,000	4,576,000	126,448,000	2,336,000
Other.....	520,000	864,000	3,161,000	2,987,000	3,914,000
	<u>65,557,000</u>	<u>86,132,000</u>	<u>110,186,000</u>	<u>220,905,000</u>	<u>106,696,000</u>
Increase in working capital.....	<u>\$ 19,414,000</u>	<u>\$142,736,000</u>	<u>\$ 42,993,000</u>	<u>\$ 80,408,000</u>	<u>\$119,938,000</u>
Analysis of Changes in Working Capital					
Increase (decrease) in current assets—					
Cash and certificates of deposit.....	\$ 20,057,000	\$ 11,522,000	\$ 876,000	\$ 22,985,000	\$ (6,343,000)
Marketable securities.....	(15,046,000)	32,989,000	(31,014,000)	20,403,000	(5,302,000)
Accounts receivable.....	10,319,000	781,000	297,000	17,402,000	13,646,000
Merchandise inventories.....	95,350,000	45,302,000	139,910,000	193,086,000	224,476,000
Operating supplies and prepaid expenses....	3,335,000	2,014,000	2,809,000	4,984,000	4,378,000
	<u>113,861,000</u>	<u>92,608,000</u>	<u>112,878,000</u>	<u>258,860,000</u>	<u>230,855,000</u>
(Increase) decrease in current liabilities—					
Long-term debt due within one year.....	(6,000)	(118,000)	101,000	(34,000)	(363,000)
Notes payable.....	(45,046,000)	82,226,000	(7,955,000)	(90,634,000)	33,396,000
Accounts payable—trade.....	(42,936,000)	(14,962,000)	(37,800,000)	(60,220,000)	(120,504,000)
Accrued taxes, other than U. S. and foreign income taxes.....	(2,063,000)	(2,946,000)	(5,412,000)	(9,450,000)	(11,340,000)
Accrued payroll and other liabilities.....	(5,512,000)	(5,570,000)	(10,801,000)	(19,442,000)	891,000
Dividends payable.....	(544,000)	(515,000)	(586,000)	(481,000)	(932,000)
U. S. and foreign income taxes.....	1,660,000	(7,987,000)	(7,432,000)	1,809,000	(12,065,000)
	<u>(94,447,000)</u>	<u>50,128,000</u>	<u>(69,885,000)</u>	<u>(178,452,000)</u>	<u>(110,917,000)</u>
Increase in working capital.....	<u>\$ 19,414,000</u>	<u>\$142,736,000</u>	<u>\$ 42,993,000</u>	<u>\$ 80,408,000</u>	<u>\$119,938,000</u>

See Notes to Consolidated Financial Statements

**S. S. KRESGE COMPANY
and Subsidiary Companies**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Summary of Significant Accounting Policies

Fiscal Year: In 1970 the company changed its fiscal year end from January 31 to a 52-53 week year ending on the last Wednesday in January. The effect of this change was not significant. The operations of subsidiary companies doing business outside the U. S. and Canada cover fiscal years ended on the last Saturday in December to facilitate preparation of the consolidated financial statements within a reasonable time after the year end of domestic and Canadian companies.

Basis of Consolidation: All majority owned retailing subsidiaries have been included in the consolidated financial statements. Other affiliated retailing companies in which the company has more than a 20% interest are accounted for by use of the equity method. Effective on January 23, 1974, the company acquired all of the outstanding stock of an insurance company, Planned Marketing Associates, Inc. (PMA), in exchange for 1,912,846 shares of the company's common stock. This transaction was accounted for as a pooling of interests. The company's investment in its wholly-owned unconsolidated insurance subsidiary is included in the accounts on the equity method.

Foreign Operations: Assets of the foreign retailing subsidiaries amounted to approximately 10% of the consolidated assets in 1973; net income of the foreign retailing subsidiaries was 9% of consolidated net income in 1973. Long-term assets and long-term liabilities of foreign subsidiaries are translated into U. S. dollars at rates of exchange in effect at the dates of their acquisition. Current assets and current liabilities are translated at the approximate rate in effect at the end of each period. Revenues and expenses are translated at approximate average rates in effect during each period, except for depreciation which is translated at the rates of exchange which were in effect when the respective assets were acquired. Net unrealized losses from foreign currency translation are charged to income currently. Net unrealized gains from foreign currency translations are deferred, except that gains are credited to income currently to the extent of losses previously charged to income. Neither translation gains and losses included in income nor deferred translation gains are material.

Inventory: Merchandise inventories are valued at the lower of cost or market, using the retail method, on a first-in, first-out basis.

Property, Plant and Equipment: Land, buildings, leasehold improvements and equipment are recorded at cost. Major replacements and refurbishings are charged to the property accounts while replacements, maintenance and repairs which do not improve or extend the life of the respective assets are expensed currently.

Generally, in the case of ordinary retirements, the cost of properties is charged to the reserve for depreciation and in the case of extraordinary retirements such as those resulting from abandonments of locations and complete rebuilding at locations, the cost of properties retired and the accumulated depreciation thereon is eliminated from the accounts and the resulting gain or loss is taken into income.

Depreciation: The company computes depreciation of fixed assets principally on the straight line method for financial statement purposes and on accelerated methods for income tax purposes. Most store properties are leased, and improvements are amortized over the term of the lease but not more than 25 years. Other annual rates used in computing depreciation for financial statement purposes are 2% to 5% for buildings, 10% for K mart fixtures and equipment, and 6% to 20% for all other fixtures and equipment.

Sale and Leaseback: Gains or losses on sale and leaseback transactions are deferred and recognized in income over the initial terms of the leases.

Licensee Sales: The company's policy is to exclude sales of licensed departments from total sales.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

Pre-Opening Costs: The company follows the practice of charging against net income costs incurred prior to opening a new retail unit.

Income Taxes: Deferred income taxes are provided on non-permanent differences between financial statement and taxable income, resulting principally from the use for tax purposes of accelerated depreciation methods.

The company accrues appropriate U.S. and foreign taxes payable upon distribution of earnings of subsidiaries, except on those earnings which have been, or are intended to be permanently reinvested, or which are expected to be distributed free of additional tax by operation of relevant statutes currently in effect and by utilization of available tax credits and deductions.

Investment Credit: The company uses the "flow through" method of accounting for investment credit whereby income tax expense is reduced for the period in which expenditures create the tax benefit.

Note 2—Inventories

Inventories used in the computation of cost of merchandise sold are summarized as follows:

January	
1969.....	\$ 304,236,000
1970.....	399,586,000
1971.....	444,888,000
1972.....	584,798,000
1973.....	774,884,000
1974.....	1,002,360,000

Note 3—Compensating Balances and Current Notes Payable

Current notes payable comprised the following:

	January 30, 1974
Notes payable (weighted average interest rate 8.99%).....	\$53,031,000
S. S. Kresge Company commercial paper (weighted average interest rate 8.61%).....	33,832,000
	<u>\$86,863,000</u>

The maximum amount of aggregate short-term borrowings outstanding during the year ended January 30, 1974, was \$266,456,000. The approximate average aggregate short-term borrowings outstanding during the year was \$153,763,000 at an approximate weighted average interest rate of 8.2%. The weighted average interest rate was calculated using the average aggregate short-term borrowings for the year and the related interest expense.

Arrangements were made with various lending banks during the year ended January 30, 1974 for an aggregate line of credit of \$294,100,000 at interest rates approximating the "prime" lending rate, none of which was being used at January 30, 1974. Under such arrangements, the company is expected to maintain on deposit with the banks compensating balances which will average 10% of the line to the extent that it is not in use and an additional 10% on that portion being used. The company is free to withdraw the entire balance in their accounts at any time.

Note 4—Income Taxes

The current liability for U.S. and foreign income taxes includes \$15,082,000 at January 30, 1974 arising from the tax effects of timing differences related principally to property taxes and profit on installment sales. The amounts shown on the balance sheet for deferred U.S. and foreign income taxes result from the difference between financial statement and income tax depreciation.

Undistributed earnings of subsidiaries which have been or are intended to be permanently reinvested or which are expected to be distributed free of additional tax by operation of relevant statutes currently in effect and by utilization of available tax credits and deductions, totaled approximately \$254,000,000 at January 30, 1974.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

Tax effects of income tax timing differences includes foreign taxes as follows:

Year ended January—	
1970.....	\$314,000
1971.....	350,000
1972.....	360,000
1973.....	274,000
1974.....	291,000

Note 5—Long-term Debt

	January 30, 1974
3 $\frac{1}{8}$ % and 4 $\frac{7}{8}$ % notes payable in varying amounts through December 16, 1983 (\$2,000,000 due within one year).....	\$13,500,000
Foreign loans.....	8,750,000
Other.....	991,000
	<u>23,241,000</u>
Portion due within one year.....	2,176,000
	<u>\$21,065,000</u>

Under the long-term note agreements, \$504,061,000 of income retained for use in the business at January 30, 1974 is available for payment of cash dividends.

Principal payments on long-term debt for the five years subsequent to January 30, 1974 are as follows:

1975.....	\$2,176,000
1976.....	630,000
1977.....	1,364,000
1978.....	1,369,000
1979.....	1,375,000

Note 6—Capital Stock

Changes in capital stock for the five years ended January 30, 1974, as adjusted for the three-for-one stock split in 1972, were:

	Shares	Amount
Balance at January 31, 1969 restated for pooling of interests.....	104,069,281	\$ 58,143,000
Common stock sold under stock option and purchase plans.....	599,364	333,000
Conversion of 4 $\frac{1}{8}$ % debentures.....	209,040	116,000
Transactions of insurance subsidiary prior to merger.....	15,026	15,000
Balance at January 31, 1970.....	104,892,711	58,607,000
Common stock sold under stock option and purchase plans.....	234,627	131,000
Conversion of 4 $\frac{1}{8}$ % debentures.....	4,369,227	2,427,000
Transactions of insurance subsidiary prior to merger.....	1,016,716	1,017,000
Balance at January 27, 1971.....	110,513,281	62,182,000
Common stock sold under stock option and purchase plans.....	936,060	520,000
Transactions of insurance subsidiary prior to merger.....	16,650	17,000
Balance at January 26, 1972.....	111,465,991	62,719,000
Change in par value and three-for-one stock split.....		48,746,000
Common stock sold under stock option and purchase plans.....	624,724	625,000
Conversion of 5% convertible debentures.....	7,009,737	7,010,000
Transactions of insurance subsidiary prior to merger.....	109,993	110,000
Balance at January 31, 1973.....	119,210,445	119,210,000
Common stock sold under stock option and purchase plans.....	434,969	435,000
Transactions of insurance subsidiary prior to merger.....	15,953	16,000
Balance at January 30, 1974.....	<u>119,661,367</u>	<u>\$119,661,000</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

In June, 1972, the stockholders approved a change in the authorized common stock from 60,000,000 shares of \$1.66 $\frac{2}{3}$ par value to 250,000,000 shares of \$1.00 par value and concurrently effected a three-for-one stock split. As of January 27, 1971 the company held 83,154 shares of common stock in its treasury at a cost of \$338,000. These shares were used to purchase the stock of another company as of October 1, 1971. There were no other transactions in treasury stock during the five years ended January 30, 1974.

Ten million shares of no par value preferred stock with voting and cumulative dividend rights were authorized in 1969 primarily for possible use in acquisitions but there are currently no plans for its use. The authorized preferred shares may be issued in one or more series as determined by the Board of Directors. All shares will be identical except that there may be variations in different series with respect to dividend rate, redemption price, liquidation preference, sinking fund provisions and conversion features.

Note 7—Stock Option and Purchase Incentive Plans

Under a qualified stock option plan approved in May, 1969, by the stockholders, 1,200,000 shares of common stock were reserved for granting of options to officers and key employees at 100% of the fair market value on the date of grant. Options under this plan expire five years from the date of grant and are exercisable in annual installments, except that options granted to optionees over age 61 at the date of grant are exercisable in total at such date. In April, 1973, the Board of Directors of the company discontinued the 1969 plan except as to outstanding options thereunder.

In June, 1973, the stockholders approved the 1973 Stock Option Plan. Any option granted under the 1973 plan shall, as designated by the Stock Option Committee at the time of the grant, be either an option which is qualified under the Internal Revenue Code, as amended (a "Qualified" option) or an option which is not so qualified (a "Non-Qualified" option). 1,000,000 shares were reserved for granting of options to officers and key employees at 100% of the fair market value on the date of grant. Options under this plan expire from five to ten years after the date of grant and are exercisable in annual installments, except that options granted to optionees over age 61 at the date of grant are exercisable in total at such date. At January 30, 1974, there were 710,336 shares available for granting of additional options.

In addition to the above stock options, at January 30, 1974, there were also options outstanding for 104,715 common shares of the company at prices ranging from \$18.06 to \$25.43. These options were assumed in the merger with PMA.

Option information is summarized below and has been adjusted for the three-for-one stock split in 1972.

		Option Price			Fair Market Value		
	Number of Shares	Per Share		Total	Per Share		Total
1969 Plan							
Under Option at January 30, 1974....	671,300	\$12.77 to \$38.15		\$17,140,000	\$12.77 to \$38.15		\$17,140,000 (a)
Options granted Year ended in January—							
1970.....	645,300	13.96 to 18.90		9,017,000	13.96 to 18.90		9,017,000 (a)
1971.....	179,400	12.77 to 18.36		2,318,000	12.77 to 18.36		2,318,000 (a)
1972.....	164,700	28.83 and 32.52		4,826,000	28.83 and 32.52		4,826,000 (a)
1973.....	243,600	38.15		9,293,000	38.15		9,293,000 (a)
1974.....	None						
Options which became exercisable, Year ended in January—							
1970.....	130,020	13.96 to 18.90		1,817,000	13.96 to 18.90		1,817,000 (b)
1971.....	164,103	12.77 to 18.90		2,229,000	11.41 to 20.32		2,707,000 (b)
1972.....	250,809	12.77 to 32.52		3,655,000	25.13 to 32.52		6,585,000 (b)
1973.....	221,682	12.77 to 38.15		4,922,000	37.17 to 48.00		8,554,000 (b)
1974.....	205,425	12.77 to 38.15		4,721,000	33.13 to 47.50		8,016,000 (b)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

	Number of Shares	Option Price		Fair Market Value	
		Per Share	Total	Per Share	Total
Options exercised					
Year ended in					
January—					
1970.....	8,055	\$13.96	\$ 112,000	\$14.20 to \$19.56	\$ 145,000 (c)
1971.....	26,910	12.77 and 13.96	375,000	11.79 to 19.98	449,000 (c)
1972.....	131,355	12.77 to 18.90	1,827,000	21.58 to 32.58	3,781,000 (c)
1973.....	195,748	12.77 to 38.15	2,839,000	32.44 to 49.50	8,621,000 (c)
1974.....	129,396	12.77 to 38.15	1,961,000	28.25 to 47.44	4,889,000 (c)
1973 Plan					
Under option at					
January 30, 1974....	326,900	\$37.63	\$12,301,000	\$37.63	\$12,301,000 (a)
Year ended in					
January, 1974—					
Options granted...	329,900	37.63	12,414,000	37.63	12,414,000 (a)
Options which					
became					
exercisable.....	71,340	37.63	2,685,000	37.63	2,685,000 (b)
Options exercised..	None				

(a) at dates of grant

(b) at dates options became exercisable

(c) at dates options were exercised

Information relating to sales of common stock to eligible officers and employees by payroll deduction under stock purchase incentive plans approved by the stockholders as adjusted for the three-for-one split in 1972 follows:

	Shares	Price Per Share
Year ended in January—		
1970.....	591,309	\$10.33
1971.....	207,717	13.32
1972.....	804,705	11.62
1973.....	428,976	24.86
1974.....	305,640	28.96

Under the stock purchase plan in effect prior to July 31, 1971, shares were sold at 85% of the fair market value on the first day of each plan year. Under a new plan in effect subsequent to July 31, 1971, shares are sold at the lower of 85% of the market value on the first or last day of each plan year. At January 30, 1974, there were 1,665,384 common shares available for sale to eligible employees under the new plan through June, 1976.

At the time stock is sold under the stock option and purchase incentive plans, the par value of common stock issued is credited to the common stock account and the excess of the proceeds over par value is credited to capital in excess of par value. No amounts are charged or credited to income in connection with the plans.

Note 8—Retirement Pension Plans

The company and its subsidiaries have non-contributory retirement pension plans covering employees whose eligibility is based on age and years of service. The company's policy is to fund pension costs accrued. The actuarially computed value of vested benefits as of January 30, 1974 was not in excess of pension fund assets and unfunded prior service costs were not significant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

Charges to operations for pension costs are as follows:

Year ended in January—

1970.....	\$4,335,000
1971.....	4,721,000
1972.....	5,363,000
1973.....	6,814,000
1974.....	8,696,000

Note 9—Commitments

Minimum annual rentals and minimum sublease rental income for land and buildings under non-capitalized SEC-defined financing leases and subleases at January 30, 1974 aggregated \$2,541,986,000. Under these leases and subleases, which represent substantially all of the company's leases, the minimum annual rentals are as follows:

	Minimum Annual Rentals	Minimum Sublease Rental Income	Net Minimum Annual Rentals
1974.....	\$ 152,915,000	\$ 24,054,000	\$ 128,861,000
1975.....	151,239,000	23,765,000	127,474,000
1976.....	149,798,000	23,406,000	126,392,000
1977.....	148,430,000	22,968,000	125,462,000
1978.....	146,862,000	22,663,000	124,199,000
1979-1983.....	708,685,000	92,964,000	615,721,000
1984-1988.....	613,890,000	50,533,000	563,357,000
1989-1993.....	495,060,000	27,671,000	467,389,000
1994-2031.....	275,656,000	12,525,000	263,131,000
	<u>\$2,842,535,000</u>	<u>\$300,549,000</u>	<u>\$2,541,986,000</u>

Certain leases provide for additional rent payments based on sales volume in excess of a specified base. Generally, leases contain multiple five year renewal options, which may extend the life of the lease up to 50 years beyond the noncancellable portion.

Most leases on K marts and certain leases on Kresge and Jupiter stores are gross leases under which the lessor pays property taxes, insurance and specified building and parking lot maintenance and repair costs.

The present value of aggregate minimum rental commitments of SEC-defined financing leases at January 30, 1974 was as follows:

	January 30, 1974
Land and buildings.....	\$1,069,598,000
Less—present value of subleases.....	183,804,000
	<u>\$ 885,794,000</u>

Interest rates utilized with respect to the valuation of SEC-defined financing leases ranged from 2.5% to 8.7% with a weighted average interest rate of approximately 7.3% in 1973.

Note 10—Supplementary Income Statement Information

Taxes, other than income taxes

Year ended in January—

1970.....	\$28,138,000
1971.....	31,446,000
1972.....	40,744,000
1973.....	53,325,000
1974.....	70,826,000

Charged
to profit
and loss

Advertising, depreciation and rentals are disclosed elsewhere in this Prospectus. All other items are less than 1% of revenues.



